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SUBJECT: KAZAKHSTAN: CHEVRON DISCUSSES NEW INVESTMENTS, CPC  
EXPANSION, AND FUTURE GROWTH

REF: (A) 08 ASTANA 2144  
(B) ASTANA 0131

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On June 10, Chevron executives told Energy Officer that they will press hard to sanction expansion of the Caspian Pipeline Consortium (CPC) pipeline by the end of the year, despite indications from KazMunaiGas (KMG) that a decision will be postponed until 2010. KMG confirmed that the government of Kazakhstan would have to waive its pre-emptive right to purchase British Petroleum's (BP) shares in Tengizchevroil (TCO) before BP can sell its stake in the enterprise to Lukoil. Chevron touted its investment in an Atyrau polypropylene pipe plant as evidence of economic diversification, confided that issues related to sulfur storage at Tengiz have been resolved, and said they are prepared to provide training and logistical support for the maritime transportation of crude oil across the Caspian Sea. END SUMMARY.

BOARD MEMBER SAYS CPC EXPANSION LIKELY BY MID-2010

13. (SBU) During a June 5 meeting with Energy Officer, KMG's Director for New Transportation Projects, Timur Rakhanov, who is also a member of the CPC's Board of Directors, said he does not expect the consortium to sanction CPC expansion until the first quarter of 2010. Rakhanov said there are no political or financial obstacles to expansion, but he said more time is needed to prepare the necessary legal and technical documentation. Rakhanov added that Russia, CPC's largest shareholder with 31 percent, is pressing the consortium to appoint a Russian government representative as new general director of CPC in 2010, before the vote to sanction expansion is taken.

CPC EXPANSION TIED TO TCO DIVESTMENT

14. (SBU) When asked if Kazakhstan plans to increase its share in

CPC, Rakhanov said no. He explained that KMG's recent acquisition of BP's shares in Kazakhstan Petroleum Ventures increased KMG's crude shipping quota to 14 million tons, which he said was sufficient to meet current needs. Rakhanov did, however, confirm that the government of Kazakhstan would have to waive its pre-emptive right to purchase BP's shares in TCO before BP can sell its stake to Lukoil. He refused to speculate on the likelihood of this happening, but he noted that this is a rare opportunity to acquire shares in a lucrative venture, and he said that President Nazarbayev would make the final decision. (NOTE: BP is in negotiations with Lukoil to sell its shares in CPC and TCO for as much as \$2 billion. BP holds the shares via its joint venture with Lukoil, LukArco. END NOTE).

#### CHEVRON CALLS DELAY "UNACCEPTABLE"

15. (SBU) On June 10, Chevron's Managing Director for Eurasia, Jay Johnson (protect throughout), told Energy Officer that a delay on CPC expansion is "simply unacceptable." Johnson said that Chevron, KMG, and Transneft are working hard to complete the necessary financial, technical and engineering negotiations by the end of the year and he said he still hopes the consortium will sanction expansion in 2009.

#### THE TIME FOR "FUTURE GROWTH" IS NOW

16. (SBU) According to Johnson, TCO's daily crude production averages approximately 560,000 barrels per day. Johnson confided to Energy Officer that there are more than 1 billion barrels in the reservoir at Tengiz, but production is time sensitive, due to the nature of the geological structure. Johnson said Chevron is prepared to recover the oil during the Future Growth phase, but the government must approve the budget and work plan by the end of the year. According to Johnson, "We either produce that oil now, or we lose it forever."

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#### TCO SETTLES SULFUR ISSUES

17. (SBU) A very relieved and satisfied Johnson told Energy Officer that TCO has "ironed out" all of its sulfur issues with the Kazakhstani government. According to Johnson, TCO reached an agreement on June 8 with Deputy Prime Minister Umirzak Shukeyev on the classification and treatment of Tengiz sulfur. Johnson explained that if the sulfur meets the government's standards for a by-product, it will be treated as such. If it does not, it will be treated as waste, and TCO will be assessed environmental fines accordingly. Johnson acknowledged that not all sulfur produced at TCO would qualify as a by-product under the government's standards, but he was satisfied with the resolution. TCO plans to increase sulfur sales to national nuclear company Kazatomprom (KAP) and sulfuric acid plants in Kazakhstan. Johnson said that TCO expects to sell 1.0 to 1.2 million tons of sulfur per year to KAP by 2011. "Even though we're losing money on the deal," he said, "selling sulfur to Kazakhstani companies allows TCO to increase local content and reduce transportation costs. And, we're moving the product. So it's worth it." During the first six months of this year, TCO has already sold an amount equivalent to 120 percent of the sulfur produced at Tengiz.

#### CHEVRON PROMOTES POLYETHYLENE PIPE PLANT

18. (SBU) On June 8, Johnson said that President Nazarbayev met for more than ninety minutes with Chevron's Chief Executive Officer David O'Reilly. "That was the longest meeting Nazarbayev has ever had with the company," he said. Later, Nazarbayev referred to this meeting during the June 12 plenary session of the Foreign Investors Council in Kostanai, which was dedicated to a discussion of diversifying sources of investment. "We agreed with Mr. O'Reilly to double the capacity of the Atyrau polyethylene pipe plant, and to construct a new valve plant and shipyard on the Caspian Sea. This is a very good sign," announced Nazarbayev. Johnson said that Chevron would use new technology to produce heat-resistant pipes and market its products to the entire Eurasian region.

#### MOVEMENT ON KCTS

19. (SBU) Johnson said that Chevron supports the development of the Kazakhstan Caspian Transportation System (KCTS) and is close to reaching agreement with KMG and the Kashagan consortium on its participation in the Eskene-Kuryk pipeline. "We made good progress two weeks ago," according to Johnson, "and expected to sign a Memorandum of Understanding at the June 12 FIC meeting, but the government introduced new conditions at the last minute." Nevertheless, he said he expects to conclude negotiations on the pipeline portion in the near future. Johnson also said that Chevron is forming a team of marine transportation experts to advise the government on the logistics of shipping oil across the Caspian Sea. According to Johnson, Chevron welcomes the support and assistance of the U.S. Trade and Development Agency to establish a maritime academy and a marine training center to train engineers and captains in first principles and problem solving. Of the 900 jobs in Kazakhstan's marine transportation sector, fewer than 20 percent are filled by Kazakhstanis, and there is just one Kazakhstani officer.

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